

Finet Group Limited

(incorporated in the Cayman Islands with limited liability)

Third Quarterly Report 2005/2006



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Finet Group Limited (“Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to Finet Group Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

RESULTS HIGHLIGHT

- The Group reported a turnover of approximately HK\$20,773,000 for the nine months ended 31st December, 2005, representing an increase of 32% from approximately HK\$15,745,000 for the last corresponding period in 2004.
- The effect on the adoption of HKFRS 2 “Share-Based Payment” has been to increase the accumulated losses carried forward at 31st March, 2005 by approximately HK\$1,284,000 and increase the loss for the nine months ended 31st December, 2005 by approximately HK\$1,789,000 (nine months ended 31st December, 2004: approximately HK\$675,000), due to increase in the share option benefits which is included in the general and administrative expenses.
- The Group’s unaudited consolidated loss attributable to shareholders for the nine months ended 31st December, 2005 was approximately HK\$1,491,000.
- The board of Directors does not recommend the payment of dividend for the nine months ended 31st December, 2005.

The board of Directors (the "Board") of Finet Group Limited (the "Company") is pleased to present the unaudited results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 31st December, 2005, together with the comparative unaudited figures for the corresponding periods in 2004 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 31st December, 2005

	Notes	For the three months ended 31st December,		For the nine months ended 31st December,	
		2005 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	2004 HK\$'000 (restated)
Turnover	3	7,051	5,375	20,773	15,745
Cost of sales		(2,313)	(1,597)	(6,365)	(4,286)
		4,738	3,778	14,408	11,459
Other revenue	3	(316)	–	1,783	1
Selling expenses		(189)	(103)	(459)	(445)
General and administrative expenses		(5,687)	(3,933)	(17,127)	(10,564)
(Loss)/Profit from operations	4	(1,454)	(258)	(1,395)	451
Finance cost	5	(60)	–	(96)	–
(Loss)/Profit before taxation		(1,514)	(258)	(1,491)	451
Taxation	6	–	–	–	–
(Loss)/Profit attributable to shareholders		(1,514)	(258)	(1,491)	451
(Loss)/Earnings per share (in HK cents)					
– Basic	8	(0.3066)	(0.0991)	(0.3019)	0.1729
– Diluted	8	(0.2736)	N/A	(0.2745)	N/A

NOTES TO THE ACCOUNTS

1. Basis of preparation of the accounts

The unaudited consolidated financial statements are prepared in accordance and comply with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”).

The principal accounting policies and methods of computation used in the preparation of these accounts are consistent with those adopted in the preparation of the annual accounts for the year ended 31st March, 2005, except for the adoption of certain new and revised HKFRSs and Hong Kong Accounting Standards (“HKASs”) as disclosed in note 2 below.

2. Impact on new HKFRSs and HKASs

The HKICPA has issued and revised a number of HKFRSs and HKASs, which are generally effective for the accounting periods beginning on or after 1st January, 2005. The Group has adopted, for the first time, the following HKFRSs and HKASs, which are pertinent to its operations and have had significant effect on these unaudited consolidated financial statements.

HKAS 1	Presentation of Financial Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 23	Borrowing Costs
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-Based Payment

The adoption of new/revised HKFRSs and HKASs did not result in substantial changes to the Company’s accounting policies and had no material effect on the financial statements except for the adoption of HKFRS 2 as stated below.

The effect on the adoption of HKFRS 2 “Share-Based Payment” has been to increase the accumulated losses carried forward at 31st March, 2005 by approximately HK\$1,284,000 and increase the loss for the nine months ended 31st December, 2005 by approximately HK\$1,789,000 (nine months ended 31st December, 2004: approximately HK\$675,000), due to increase in the share option benefits which is included in the general and administrative expenses. Furthermore, 12,700,000 share options lapsed during the nine months ended 31st December, 2005 which resulted in transferring approximately HK\$157,000 from the employee share-based compensation reserve to the share premium account.

Due to the adoption of certain new HKFRSs and HKASs during the nine months ended 31st December, 2005, the accounting treatment and presentation of certain items and balances in the unaudited consolidated financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified/ restated to conform with the current period’s presentation.

3. Turnover and revenue

Turnover represents total invoiced value of goods supplied and services rendered. Revenue recognized during the period is as follows:

	For the three months ended 31st December,		For the nine months ended 31st December,	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover				
Service income	6,665	5,222	19,755	15,354
Advertising income	241	153	708	389
Sales of merchandise	145	–	310	2
	<u>7,051</u>	<u>5,375</u>	<u>20,773</u>	<u>15,745</u>
Other Revenue				
Net realized (loss)/gain on disposal of short term investments	(401)	–	1,602	–
Interest income	85	–	168	1
Dividend income	–	–	13	–
	<u>(316)</u>	<u>–</u>	<u>1,783</u>	<u>1</u>
Total turnover and other revenue	<u>6,735</u>	<u>5,375</u>	<u>22,556</u>	<u>15,746</u>

The Group has one business segment, which is the provision of financial information services and internet advertising. During the period, over 90% of the Group's revenue is derived from the Group's operations in Hong Kong. Accordingly, no separate business geographical segment information is prepared.

4. (Loss)/Profit from operations

	For the three months ended 31st December,		For the nine months ended 31st December,	
	2005 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	2004 HK\$'000 (restated)
Depreciation of property, plant and equipment:				
– owned assets	284	340	901	997
– assets held under finance lease	5	–	7	–
Operating lease charges – rentals of office premises	282	172	932	510
Staff costs, including Directors' remuneration:				
– salaries and allowances	2,786	1,776	7,622	5,243
– share option benefits	678	608	1,789	675
Unrealized holding loss on short term investments	192	–	1,085	–

5. Finance cost

	For the three months ended 31st December,		For the nine months ended 31st December,	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Interest on bank loan, secured	60	–	96	–

6. Taxation

The Company was incorporated in the Cayman Islands as an exempted company and, accordingly, is exempted from payment of Cayman Islands income tax. The Company's subsidiary established in the British Virgin Islands was exempted from payment of the British Virgin Islands income tax.

No Hong Kong profits tax has been provided for the nine months ended 31st December, 2005 (nine months ended 31st December, 2004: nil) as the Group had no estimated assessable profit arising in Hong Kong for the period.

No income tax was provided for the nine months ended 31st December, 2005 (nine months ended 31st December, 2004: nil) for a subsidiary of the Company established in the People's Republic of China ("PRC") as the subsidiary had no assessable profits for the nine months ended 31st December, 2005.

7. Dividend

The Board does not recommend the payment of dividend for the nine months ended 31st December, 2005 (nine months ended 31st December, 2004: nil).

8. (Loss)/Earnings per share*(a) Basic*

The calculation of the basic loss per share for the three months and nine months ended 31st December, 2005 is based on the consolidated loss attributable to shareholders of approximately HK\$1,514,000 and HK\$1,491,000 respectively (three months and nine months ended 31st December, 2004: (loss)/profit attributable to shareholders approximately (HK\$258,000) and HK\$451,000 respectively) and on the 493,840,000 ordinary shares in issue during the three months and nine months ended 31st December, 2005 (three months and nine months ended 31st December, 2004: 260,650,000).

(b) Diluted

The calculation of diluted loss per share is based on 493,840,000 ordinary shares in issue during the three months and nine months ended 31st December, 2005 plus the 59,506,760 and 49,157,619 ordinary shares deemed to be issued during for the three months and nine months ended 31st December, 2005 respectively if all the outstanding potential ordinary shares were exercised.

No diluted (loss)/earnings per share for the three months and six months ended 31st December, 2004 is presented as there was no dilutive instruments at 31st December, 2004.

9. Movement of Reserves

	Share capital HK\$'000	Share premium HK\$'000	Share issuance costs HK\$'000	Merger reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated deficit HK\$'000	Total HK\$'000
As at 1st April, 2004	2,607	61,513	(3,845)	4,870	-	-	(61,086)	4,059
Net profit for the period as restated	-	-	-	-	-	-	451	451
Share issuance cost	-	-	(2,017)	-	-	-	-	(2,017)
Effect of changes in accounting policies - adoption of HKFRS 2 (note 2)	-	-	-	-	675	-	-	675
As at 31st December, 2004 as restated	<u>2,607</u>	<u>61,513</u>	<u>(5,862)</u>	<u>4,870</u>	<u>675</u>	<u>-</u>	<u>(60,635)</u>	<u>3,168</u>
As at 1st April, 2005	4,938	76,477	-	4,870	-	-	(59,631)	26,654
Effect of changes in accounting policies - adoption of HKFRS 2 (note 2)	-	-	-	-	1,284	-	(1,284)	-
As at 1st April, 2005 as restated	<u>4,938</u>	<u>76,477</u>	<u>-</u>	<u>4,870</u>	<u>1,284</u>	<u>-</u>	<u>(60,915)</u>	<u>26,654</u>
Net loss for the period	-	-	-	-	-	-	(1,491)	(1,491)
Share option benefits	-	-	-	-	1,789	-	-	1,789
Share option benefits - Lapsed	-	157	-	-	(157)	-	-	-
Exchange realignment	-	-	-	-	-	10	-	10
As at 31st December, 2005	<u>4,938</u>	<u>76,634</u>	<u>-</u>	<u>4,870</u>	<u>2,916</u>	<u>10</u>	<u>(62,406)</u>	<u>26,962</u>

MANAGEMENT DISCUSSION AND ANALYSIS OPERATIONS REVIEW

The Group has established itself as one of the pioneering and leading providers of integrated financial information solutions in Greater China to incorporate multiple-market news, data, analyses and analytical tools into cutting-edge software and applications to serve financial institutions and the investment community. The Group continued to focus on its core business for the nine months ended 31st December, 2005.

The Group believed that there are growing demands from investment communities for one-stop shop solutions to access both business and financial information and investment services, thus the Group has been in discussion with several financial institutions to market their financial products and/or trading services on the Group's financial information platforms, as a move to complement its core information business.

The Group continued the negotiations with a number of global data vendors and information aggregators to establish strategic alliances. Once completed, the alliances will significantly expand the data and service offerings on Finet Information Technology Solutions ("FITS") and Finet PowerStation. Furthermore, the Group continued to explore new business opportunities with leading banks and financial institutions to reinforce its FITS business. The revamp of the Group's flagship website was on schedule, with a new e-newsletter introduced to all registered members in November, 2005.

In October, 2005, the Group's PRC operational centre was moved to its newly acquired property in Shenzhen, the PRC. The move paves the way for the Group's upcoming business expansion in the PRC.

In November, 2005, the Group began identifying suitable business opportunities in connection with the acquisition, management and securitization of non-performing loans ("NPL") portfolios in China. Should the NPL portfolios acquisitions materialize, a further announcement will be made on the progress of the NPL project.

FINANCIAL REVIEW

The Group reported a turnover of approximately HK\$20,773,000 for the nine months ended 31st December, 2005, representing an increase of approximately 32% from approximately HK\$15,745,000 for the last corresponding period in 2004.

During the nine months ended 31st December, 2005, the Group recorded cost of sales amounted to approximately HK\$6,365,000, representing an increase of 49% to the same period in 2004, which was in line with the increase in the turnover for the same period.

During the nine months ended 31st December, 2005, the Group recorded general and administrative expenses amounted to approximately HK\$17,127,000, representing an increase of 62% or approximately HK\$6,563,000 to the same period in 2004, which was mainly resulted from an increase in the staff costs – salaries and allowances by approximately HK\$2,379,000; an increase in the share option benefits by approximately HK\$1,114,000; and an increase in the provision of unrealized holding loss on short term investments by approximately HK\$1,085,000.

The unaudited consolidated loss attributable to shareholders for the nine months ended 31st December, 2005 was approximately HK\$1,491,000, comparing to the consolidated profit of approximately HK\$451,000 in the last corresponding period in 2004.

Nevertheless, the Board was satisfied with the substantial growth in the turnover during the nine months ended 31st December, 2005 and believed that the growth trend shall maintain for the rest of the fiscal year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES

As at 31st December, 2005, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules, were as follows:

(i) AGGREGATE LONG POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

Name of director	No. of shares		No. of underlying shares (share options)		Notes	Total	% of shares in issue
	Personal interest	Interest of controlled corporation	Personal interest	Interest of controlled corporation			
Executive directors:							
Yu Gang, George	-	365,840,000	27,726,000	-	1(a) & (b)	393,566,000	79.69%
Au Siu Lun, Allen	-	-	3,800,000	-	-	3,800,000	0.76%
Non-executive director:							
Kwan Pun Fong, Vincent	340,000	-	-	-	-	340,000	0.07%

(ii) AGGREGATE LONG POSITIONS IN THE SHARES OF ASSOCIATED CORPORATIONS

Name of associated corporation	Name of director	No. of shares		Interest of controlled corporation	Notes	% of shares in issue
		Personal interest				
Finet International Holdings Limited	Yu Gang, George	–	3,900,000 Series A common shares		1(a)	59.85%
	Au Siu Lun, Allen	268,125 Series A common shares	–		2	4.11%
Opulent Oriental International Limited	Yu Gang, George	75	–		1(a)	75%

Notes:

- Mr. Yu Gang, George was deemed (by virtue of the SFO) to be interested in 393,566,000 shares in the Company. These shares were held in the following capacity:
 - 365,840,000 shares were held by Finet International Holdings Limited (“FIHL”). Mr. Yu Gang, George controlled 75% of Opulent Oriental International Limited (“Opulent”), which in turn controlled 59.85% of the total voting rights of FIHL (or 79.80% of all Series A common shares). The references to 365,840,000 shares deemed to be interested by Mr. Yu Gang, George (as disclosed herein), FIHL (as disclosed in the section headed “Substantial Shareholders’ Interests and Short Position in the Shares” below) and Opulent (as disclosed in the section headed “Substantial Shareholders’ Interests and Short Position in the Shares” below) relate to the same block of shares.
 - Mr. Yu Gang, George is directly interested in options carrying 27,726,000 underlying shares.
- The issued share capital of FIHL comprised 4,887,187 Series A common shares and 1,629,063 Series B common shares. Mr. Au Siu Lun, Allen controlled 4.11% of the total voting rights of FIHL (or 5.48% of all Series A common shares).

Save as disclosed above, as at 31st December, 2005, none of the Directors or chief executive of the Company nor their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN THE SHARES

As at the 31st December, 2005, so far as the Directors are aware, persons other than Directors or chief executives of the Company who have interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, were as follows:

Name of company	Capacity	Notes	Number of shares interested	% of shares in issue
Substantial shareholders:				
Finet International Holdings Limited	Direct interest	(1)	365,840,000	74.08%
Opulent Oriental International Limited	Interest of controlled corporation	(1)	365,840,000	74.08%
Other persons:				
T & C Capital Limited	Direct interest	(2)	39,750,000	8.04%
T & C Holdings, Inc.	Interest of controlled corporation	(2)	39,750,000	8.04%

Notes:

1. FIHL and Opulent were deemed (by virtue of the SFO) to be interested in 365,840,000 shares in the Company. Please refer to Note 1 in the section headed "Directors' and Chief Executives' Interests and Short Positions in the Shares" above.
2. 39,750,000 shares were held by T & C Capital Limited ("TCC"), which was a wholly-owned subsidiary of T & C Holdings, Inc. ("TCH"). Accordingly, both TCC and TCH were deemed (by virtue of the SFO) to be interested in 39,750,000 shares in the Company.

Save as disclosed above, the Directors are not aware of other person who, as at 31st December, 2005, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

DETAILS OF OUTSTANDING OPTIONS GRANTED

As at 31st December, 2005, options to subscribe for an aggregate of 60,676,000 underlying shares had been granted by the Company under the Pre-IPO Share Option Scheme adopted on 23rd July, 2004. Details of the outstanding options which have been granted and remaining unexercised under the Pre-IPO Share Option Scheme as at 31st December, 2005 are as follows:

Name of grantee	Date of grant	Exercise price per share	Balance as at 1st April, 2005	Number of share options			Balance as at 31st December, 2005
				Granted during the period	Exercised during the period	Cancelled or lapsed during the period	
Directors:							
Yu Gang, George	21st September, 2004	HK\$0.15	27,726,000	-	-	-	27,726,000
Au Siu Lun, Allen	21st September, 2004	HK\$0.15	3,800,000	-	-	-	3,800,000
Employees	21st September, 2004	HK\$0.15	41,850,000	-	-	(12,700,000)	29,150,000
			<u>73,376,000</u>	<u>-</u>	<u>-</u>	<u>(12,700,000)</u>	<u>60,676,000</u>

As at 31st December, 2005, options to subscribe for an aggregate of 12,500,000 underlying shares had been granted by the Company under the Post-IPO Share Option Scheme adopted on 16th December, 2004. Details of the outstanding options which have been granted and remaining unexercised under the Post-IPO Share Option Scheme as at 31st December, 2005 are as follows:

Name of grantee	Date of grant	Exercise price per share	Number of share options				Balance as at 31st December, 2005
			Balance as at 1st April, 2005	Granted during the period	Exercised during the period	Cancelled or lapsed during the period	
Non-Executive Director:							
Kwan Pun Fong, Vincent	29th September, 2005	HK\$0.365	-	1,000,000	-	-	1,000,000
Independent Non-Executive Directors:							
Lam Lee G.	29th September, 2005	HK\$0.365	-	1,000,000	-	-	1,000,000
Ng Ching Wo	29th September, 2005	HK\$0.365	-	1,000,000	-	-	1,000,000
Wu Tak Lung	29th September, 2005	HK\$0.365	-	1,000,000	-	-	1,000,000
Employees	5th September, 2005	HK\$0.28	-	8,500,000	-	-	8,500,000
			-	12,500,000	-	-	12,500,000

DIRECTORS' INTEREST IN CONTRACTS

No contracts of significant in relation to the Group's business to which the Group was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the nine months ended 31st December, 2005 or at any time during such period.

SPONSOR'S INTERESTS

As at 31st December, 2005, the Company's sponsor, Hantec Capital Limited ("Hantec"), its directors, employees or associates did not have any interest in the shares of the Company, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company.

Pursuant to the sponsor's agreement dated 30th December, 2004 entered into between the Company and Hantec, Hantec will receive a fee for acting as the Company's retained sponsor for the period from 7th January, 2005 to 31st March, 2007.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealing as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the nine months period ended 31st December, 2005. The Company has also made specific enquiry to all directors of the company and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors of the Company.

COMPETING INTERESTS

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group during the nine months ended 31st December, 2005.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in accordance with Rules 5.28 of the GEM Listing Rules. The audit committee comprises three members whom are independent non-executives directors. Their principal duties are to review and supervise the financial reporting process and internal control procedures of the Group. Mr. Wu Tak Lung is the chairman of the audit committee.

The unaudited consolidated financial statements of the Company for the nine months ended 31st December, 2005 have been reviewed by the audit committee, who is of the opinion that such statements comply with the applicable accounting standards and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY LISTED SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the nine months ended 31st December, 2005.

By Order of the Board

Yu Gang, George

Chairman

Hong Kong, 13th February, 2006

As at the date of this report, executive directors of the Company are Dr. Yu Gang, George and Mr. Au Siu Lun, Allen and the non-executive director is Dr. Kwan Pun Fong, Vincent, and the independent non-executive directors are Dr. Lam Lee G., Mr. Ng Ching Wo and Mr. Wu Tak Lung.